

June 21, 2006

U.S. House of Representatives
Agricultural Committee
Room 1301, Longworth House Office Bld.
Washington, D.C. 20515-6001

Regarding written testimony reviewing federal farm policy

Dear Sirs,

McCormick Farms, Inc. is a 2nd generation cash and dairy farm. We operate a 6,000 + acres farm and milk 600 cows. Our primary focus is in raising 1,800 acres of potatoes. We grow 1,000 ac. of corn and 900 ac. of forage crops to support our dairy. We grow 600 acres of snap beans and 400 acres of peas to round off our acre base.

Our focus is mainly on non-program crops. The specialty crop industry would not be well served by direct program payments to growers. Rather, the emphasis should be on building the long-term competitiveness and sustainability of the specialty crops we produce.

For the specialty crops side of our business to be successful we believe we must have good, dependable markets and crops that will yield.

Potatoes:

Markets/Marketing:

We grow chip potato varieties for the potato chip industry.

- This is \$6.2 billion finished product retail business
- Potato Chips are the #1 salty snack in the US
- Chip potato usage makes up 12% of the potato trade. Table stock is 29%, French fries are 28%, dehydrated is 11%. The rest is seed, shrinkage and other.

There are about 100 potato chip processing plants in the US. The dominant market leader in the industry is Frito-Lay with over 60% share in US retail sales. Other key regional chip companies are Wise Foods, Utz, Herrs, Lance, and Jay's to name just a few. Most potatoes for the chip industry are grown under contract. They are fixed prices for a specific quantity. Strict quality **receiving specifications** are part of the contract.

This has become **one of the most controversial aspects** of the chip potato industry. In fact, the ever increasing demands to supply "quality" raw materials for any specialty crop has added cost and financial duress on good producers. The industry for processed vegetables (especially potatoes) has shifted the lion share of

the quality risk to the grower. This portion of the contract has evolved to a point where growers now must plan to absorb rejected loads with little or no recourse to the buyer. This is especially true during over supplied markets. The buyers have the ability in those situations to “cherry pick” the “best” supply of loads without any risk of running out of total supply.

As responsible growers we invest heavily in expensive specialized equipment, use certified quality seed, employ professional crop consultants to construct proper fertility and rotation plans, work closely with our local extension office and invest in irrigation equipment to fight off drought situations. With this said, as any farmer will attest natural weather conditions will dictate much of the quality and yield the grower is left with.

Financial responsibility for hitting rising quality standards for finished product must be brought back into balance between the grower and processor.

A disturbing trend over the past five years has developed where buyers are not only rejecting loads but now will deduct weight from a load when the buyer feels the load does not meet their “minimum defect level”. The deduction is done with no prior notice to the grower until after the fact. It then leaves the grower with very few options. We can stop shipping the contract and lose the chance to move our crop at all. This undoubtedly would lead to financial duress. In addition it would end his relationship with that buyer for the future. What happens is as growers accept the deduction/rejection and hope the situation improves. We (the grower) take the entire financial impact.

Quality testing is at best a subjective process and at its worst used to simply reduce the raw material cost to the buyer. Without question this has forced many good growers to exit the potato business. In fact in the state of Wisconsin a lawsuit on this issue has made it to the courts. It was settled however the industry issue is not resolved.

Policy Recommendation/Suggestion:

1. At bare minimum the buyer should have to report to a local USDA or state Ag and Markets office how many loads they have deducted from or flat out reject during the course of the year. This way the buyer must hold itself accountable for its action in a more public forum. It then puts the grower in a better position to question a plant receiving practices. PACA laws are in place to protect the grower. However the risk to the grower is too great to make the call.
2. Production contract should be settled prior to growers being forced to make input buying and crop rotation decision.
i.e.) Minimum two months prior to planting.

This is a common strategy by buyers to fail to commit to a contract until late in the early spring. This puts the grower in a terrible position. We own the

land, seed and inputs and have no contract. During the past three years escalating cost to the grower on top of the high risk we assume has made the situation worse. We as growers have had little choice but to accept a “take or leave” it deal.

Potato Production:

Potato production essentially begins and ends with variety selection. Unlike the hundreds of commercially developed and sold corn varieties, potato varieties are very specific to what its intended end use will be. They are developed mainly by a limited number of land grant colleges. The University sells their “foundation” seed to certified potato seed growers who then multiply and sell their seed to commercial potato growers. Therefore if the potato does not perform for its intended use it is a loss to the grower. This makes the importance of having proven varieties a vital necessity to maintaining a successful business long term.

In the chip industry Frito-Lay is the dominant provider of **proprietary** varieties. About 50% of all chip varieties belong to Frito-Lay. If you don’t grow for Frito-Lay you are dependent on the land grant colleges to provide clean foundation seed to certified seed growers. In addition any new varieties that are to be developed are driven by the University system. There are about 10 Universities that have potato variety development programs and only three that have tissue culture capability. The problem here is they are grossly under funded.

Cornell University is one of these situations. It has had a very unique and historic position as it pertains to potato variety development. It has the distinction of having both a potato plant-breeding program at its main campus in Ithaca, NY. And is one of the three U.S. universities that have a foundation seed potato farm located near Lake Placid New York – ***The Uihlein Farm of Cornell University***. The combination of the two programs has made it possible to have large production of *in vitro* pathogen-free potato seed stocks. Their work led to the rapid production of golden nematode resistant seed stock. They are at the forefront of new variety development that will deliver higher yielding better quality potato varieties to growers not just in New York but throughout the US and Canada. This program is known internationally and has been hailed as the “model program for the potato seed stock production”.

As a grower we view this program as our future. Without this resource we have little means to develop varieties that will address changing consumers needs, quality traits, yield and agronomics.

The program is currently running out of money. The farms income stream comes from its seed sales to mainly New York seed growers and the USDA who funds the golden nematode program. Because the seed grower base in NY has dwindled to just a few operations, revenues from seed sales have fallen sharply. The farm has become very dependent on the government funding to keep its operation going. Consequently the potato variety development program out of Ithaca will be less effective in its

efforts to developing successful clones if the Uihlein farm ceases operation. This has already had a negative effect on the Universities. The plant breeder position at the University is at risk of being cut due in part to lack of funds. This would be a devastating blow to growers throughout the industry.

Policy Recommendation/Suggestion:

We support significant new investment in research for specialty crops, through both the National Research Initiative and programs within Cooperative State Research, Education and Extension Service (CSREES) and Agriculture Research Service (ARS).

Funding through government sources is necessary in order to secure a strong future for our industry.